

Premera Blue Cross
Public Meeting

Page 1

WASHINGTON STATE INSURANCE COMMISSION

PUBLIC MEETING

IN THE MATTER OF

THE PROPOSED CONVERSION OF PREMIERA BLUE CROSS

TO A FOR-PROFIT CORPORATION

October 8, 2002

at

Red Lion Inn
802 George Washington Way
Richland, Washington

Taken Before:

SUE E. GARCIA, CCR, RPR
Certified Court Reporter

of

CAPITOL PACIFIC REPORTING

2401 Bristol Court S.W.

Olympia, WA 98502

360.352.2054

e-mail: capitolpacific@atg.com

www.capitolpacificreporter.com

October 8, 2002
Spokane, Washington

Premera Blue Cross
Public Meeting

Page 2

I N D E X

PAGE

Mike Kreidler - Insurance Commissioner 3,11,22,40,47,52

Jim Odiorne - Assistant Insurance Commissioner 4

Rusty Fallis - Assistant Attorney General 7

Gubby Barlow - CEO Premera Blue Cross 12

Yori Milo - Premera Blue Cross Executive VP 18

Public Comment

Mr. Lynn Hall 26

Mr. Harry Geher 28

Ms. Velma Jarrett 30

Ms. Brooke DuBois 31

Dr. John Gollhofer 32

Mr. John Vornbrock 34

Dr. John Staeheli 35

Dr. Kenneth Isaacs 37

Dr. David Merkley 42

Mr. Michael Cafferky 43

Mr. John Putz 45

Dr. Leo Greenawalt 48

P R O C E E D I N G S

(Tuesday, October 8, 2002, at 7:05 p.m.)

COMMISSIONER KREIDLER: Good evening. I'm Mike Kreidler, and I'm the Washington State Insurance Commissioner. And joining me this evening is the Assistant Attorney General Rusty Fallis, who sits to my left, and to my right Deputy Insurance Commissioner Jim Odiorne. Thank you very much for coming tonight and participating in this process.

The reason we're here is because on May 30 Premera Blue Cross presented a proposal or the intent to submit a proposal to convert from nonprofit to for-profit, and that is a part of a conversion of that company.

Ultimately, I'm going to have to act as a judge in this process and decide the impact of this application on the consumers of the State of Washington. However, tonight I'll refrain from talking about the merits of the proposed conversion. Our primary concerns with the application are, number one, that consumers are not harmed by a conversion; number two, the potential effect on Premera's solvency; and three, obtaining an accurate valuation of Premera's assets.

This evening it is critical that we hear from the public early in the review process. That's why we're

1 here this evening. We'll work hard to keep our
2 presentations to a minimum so that we can hear from you.

3 We're going to start off with the presentation by
4 Deputy Insurance Commissioner Odiorne, who will speak for
5 ten minutes, followed by Assistant Attorney General
6 Fallis, who will speak for ten minutes. And following
7 these two gentlemen, we'll have an opportunity to hear
8 for 15 minutes from Premera Blue Cross to describe their
9 conversion proposal. Then the most important part of
10 this evening is to hear from you early in this process.

11 At this point I'm going to turn it over to Deputy
12 Insurance Commissioner Odiorne to outline our -- the
13 Insurance Commissioner's role in this.

14 MR. ODIORNE: Thank you, Commissioner. Good
15 evening. We're glad that you could all be here. As the
16 Commissioner indicated, it's very important that he hears
17 from you about your position on this transaction.

18 As the Commissioner indicated, Premera did file with
19 us what is known in the regulatory framework as a Form A
20 filing. That notice indicates that there will be a
21 change in control over a regulated entity, and whenever
22 as much as 10 percent of a company changes control, the
23 Form A must be filed for our review and approval. On
24 average, we do two or three Form A's each year. This is
25 probably the largest, most complex one since the -- or

1 the Farmers Group was sold several years ago.

2 Within the Premera filing are a number of different
3 types of filings. There will be new companies formed.
4 There will be changes of control of -- changes of control
5 of for-profit companies. There will be a change from
6 nonprofit to for-profit. Included will be a number of
7 intercompany agreements that, under the Holding Company
8 Act, must be approved before they can be entered into.
9 And each of those transactions must be evaluated
10 individually and as they affect the entire transaction.

11 The Commissioner's primary authority is the Holding
12 Company Act. That's Chapter 48.31C in the insurance
13 code. Under the act, a change of control requires a
14 formal hearing, and the Commissioner will act as the
15 judge in that.

16 And because of that, as he indicated, we must limit
17 some contact. We have within the Commissioner's office
18 developed what's sometimes referred to as the Chinese
19 Wall, where some people who are on one side of it and can
20 talk to the Commissioner, and others are on the other
21 side of it, and we can't talk to him about this
22 transaction. We will, in the end, make a recommendation
23 to him after we've reviewed all of the information.

24 We have engaged a number of assistants to help us in
25 that review. We have professionals in the areas of

1 investment banking, actuarial analysis, accounting and
2 tax, and legal analysis. We've identified the apparent
3 successful bidders in those areas, and each of those
4 apparent successful bidders has been involved in a
5 conversion in at least one other state. We will work
6 very closely with those consultants in developing our
7 recommendation for the Commissioner. We expect those
8 consultants to develop an executive summary, which will
9 be made public prior to the time of the final formal
10 hearing.

11 We early on developed a time frame that indicated we
12 would complete the process before the end of December of
13 this year. That won't happen. We haven't been able to
14 get the contracts with the consultants in place yet, so
15 that's pushed everything back two or three weeks at
16 least. Whatever happens with the consultants, we're not
17 going to make a recommendation to the Commissioner or ask
18 that a formal hearing be set until we're sure that we've
19 had all the information we can get and have had an
20 opportunity to fully evaluate that information.

21 It's our intention, to the extent that it's legally
22 possible, to make everything publicly available.
23 Currently on our Web site is the formal filing that's
24 public. I believe we now have the transcript from our
25 first meeting such as this, which was held in Seattle.

1 There will be prefiled testimony, and that will go on the
2 Web site. So the Web site will be an ideal place for you
3 to find where the status of the transaction is and what's
4 come in so far. There's also a place on the web site for
5 you to make additional comments if you choose.

6 Thank you.

7 COMMISSIONER KREIDLER: Thank you, Mr. Odiorne.

8 And now I would like to turn to Assistant Attorney
9 General Fallis.

10 MR. FALLIS: Thank you, Commissioner Kreidler.

11 On behalf of Attorney General Gregoire, I want to
12 extend her sincere regrets at not being able to be here
13 tonight. She very much had hoped to be able to attend
14 the forum, but she was called out of town to participate
15 with some other state attorneys general in negotiations
16 on some pending multistate litigation, and it just became
17 impossible for her to be here.

18 I'm going to spend just a few minutes describing the
19 various roles that the Office of the Attorney General
20 will play in connection with the review of the proposed
21 conversion. There are three primary roles that this
22 office will play. They won't necessarily occur in
23 sequence and, in fact, for the most part, to one degree
24 or another, these will all be going on at the same time.

25 One role will be to serve as the legal advisor to

1 the Office of the Insurance Commissioner as it performs
2 its functions in reviewing the proposed conversion. As
3 is the case with other state agencies, the Commissioner's
4 office receives legal counsel and litigation support from
5 the Attorney General's Office.

6 We have attorneys on our staff who are available to
7 advise Commissioner Kreidler in his role as the final
8 decision-maker on those things within his purview. We
9 have other lawyers on staff who will be available to
10 assist the review team that Deputy Commissioner Odiorne
11 referred to. This bifurcation of our legal staff
12 parallels the staff structure that the Commissioner's
13 office has established. And it reflects the requirement
14 in the State Administrative Procedure Act that the final
15 decision-maker in an adjudicative hearing and that
16 person's lawyers be different from the agency staff
17 members and lawyers who serve as parties and advocates in
18 the adjudicative hearing.

19 A second role that the Attorney General's Office
20 will play will be to review potential antitrust issues
21 and anticompetitive effects of the proposed conversion.
22 The Insurance Holding Company Act specifically calls for
23 the Attorney General's Office and the Commissioner's
24 Office to confer on these issues.

25 The antitrust division in the Attorney General's

1 Office will review the proposed conversion and make its
2 findings and concerns, if any, known to the review team.
3 It's possible that the Attorney General's antitrust
4 division will seek formally to intervene as a party in
5 the adjudicative hearing. Whether it does so or not is
6 up to it and will depend on what those lawyers conclude.

7 But I mention it because it's possible that, as this
8 review process unfolds, you may see one lawyer from the
9 Attorney General's Office advising Commissioner Kreidler,
10 a different lawyer advising the review team, and yet a
11 different lawyer addressing antitrust issues in the
12 adjudicative hearing.

13 The third primary role that my office will play will
14 be to review what I'll call the foundation-related
15 issues. Premera's proposed conversion involves, among
16 other things, a dissolution of some nonprofit
17 corporations, the creation of some new nonprofit
18 corporations, including some charitable corporations, and
19 the endowment of those charitable organizations with
20 funds for the purpose of carrying out certain
21 healthcare-related initiatives.

22 Under the Washington Nonprofit Corporation Act,
23 where there is a proposal to dissolve a nonprofit
24 corporation and that corporation holds assets which by
25 law can be used only for charitable or similar public

1 purposes, the Attorney General must approve a plan for
2 the dissolution of that corporation. The act goes on to
3 say that those assets, in effect, must be preserved and
4 held by a nonprofit entity which is to carry on the same
5 or similar purpose as those carried out by the dissolving
6 corporation.

7 In this instance, what this means is that those
8 assets of the conversion that involve the dissolution of
9 these nonprofit corporations and the endowment of new
10 charitable organizations require the approval of the
11 Attorney General's Office. In this regard, our review
12 will focus on two primary subject areas. One is the
13 valuation of assets, or put another way, making sure that
14 the size of the endowment that is to be placed with the
15 charitable organization is appropriate.

16 The second major area of focus will be the nature
17 and structure of the charitable organizations. As I
18 mentioned, the Nonprofit Corporation Act, and indeed, the
19 common law of charitable trusts, requires that the
20 successor entity carry on the same or similar purposes as
21 those carried on by the corporation to be dissolved.

22 What this means is that we will be looking at the
23 mission statement, the articles and bylaws, and the
24 governance structures of these new organizations to make
25 sure that they are truly independent of the for-profit

1 entities to be created and are, therefore, capable of
2 carrying out of the public-benefit services that the law
3 requires them to carry out. In a nutshell, that covers
4 the three primary functions that my office will be
5 performing.

6 I do want to mention one logistical item. The
7 Attorney General's Office has established a citizen
8 comment phone line through which any person can leave a
9 message for us with concerns or comments about the
10 proposed conversion. I'll read that number now, and if
11 you don't have a pencil or you want to talk to me
12 afterwards and get the number again, you can do so. It
13 will also be posted on the Attorney General's Web site,
14 which is www.atg.wa.gov. The phone number is
15 (360)586-8813, and this is a number you can call 24 hours
16 a day, seven days a week, and leave a message. Through
17 the Web site you can also send an e-mail message if you'd
18 rather do that than leave a phone message.

19 Thank you.

20 COMMISSIONER KREIDLER: Thank you, Assistant
21 Attorney General Fallis.

22 I want to point out that the Attorney General -- and
23 I truly -- it's unfortunate she couldn't be here tonight.
24 I know how much she wished she could be here, too, but
25 important business did take her elsewhere. We did a

1 joint hearing together in Seattle. Unfortunately, last
2 Wednesday when we were in Spokane and tonight,
3 unfortunately, she's out of town and unable to
4 participate.

5 But what it does point to is the close collaborative
6 working relationship that we have between the Attorney
7 General's Office and the Insurance Commissioner's Office.
8 We're in the process right now of finalizing an agreement
9 just exactly of who covers what and how, and how we work
10 together. That will be shortly posted on, probably, both
11 Web sites, through the Attorney General's Office and the
12 Office of the Insurance Commissioner. But it is a very
13 close working relationship that is -- we're very
14 consistent, with the kind of task that we have in front
15 of us, to do it in the best interests of the people of
16 the State of Washington.

17 I'd like to now call on Premiera's CEO, Mr. Gubby
18 Barlow, who will then also have Mr. Yori Milo make a
19 presentation.

20 MR. BARLOW: Good evening, Commissioner
21 Kreidler, Deputy Insurance Commissioner Odiorne,
22 Assistant Attorney General Fallis. Thank you for this
23 opportunity to discuss our proposal to raise capital in
24 the public markets.

25 In the four months since we announced our proposal

1 last spring, many people have shared with me their
2 support and also their concerns. People ask me, "Why
3 does Premera want to convert? Will Premera focus on Wall
4 Street instead of its members? Will being for-profit
5 cause premiums to rise or squeeze payments to physicians
6 and hospitals? Will Premera executives get huge success
7 bonuses when the company converts? Will you remain in
8 rural areas of the state? Does Premera want to be taken
9 over by an out-of-state insurer? And if not, how will
10 you prevent it?"

11 I've also seen great interest in our proposal to
12 dedicate 100 percent of the initial stock to health
13 initiatives in Washington and Alaska. Many people have
14 strong opinions about how those funds should be spent,
15 who should control the charities, and some are concerned
16 about an accurate valuation of the company.

17 These are important questions. They deserve
18 thorough public discussion. I am confident we can
19 address them all.

20 A bit about our company. Premera Blue Cross is an
21 nonprofit Washington corporation, one of the largest
22 private companies in Washington, with 3,000 employees
23 serving over 1.4 million people in three states. Our
24 roots go back to 1933 in Washington, 1977 in Alaska, and
25 1994 in Oregon. This year we're starting a new affiliate

1 in Arizona.

2 So what is Premera trying to achieve as a business?
3 I believe people buy health insurance for one primary
4 reason: peace of mind. And that's our mission, providing
5 peace of mind to our members about their healthcare
6 coverage. For us, delivering on that mission means being
7 financially stable; providing broad choices of products,
8 physicians and hospitals; providing excellent service;
9 and supporting growth. Growth not only responds to
10 customer needs, it spreads our operating costs over a
11 large base to the benefit of all of our members.

12 And because healthcare is local, we believe we can
13 best serve our members as an independent,
14 Washington-based company. This has been our strategy.
15 It remains our strategy, whether we are nonprofit or
16 for-profit.

17 So why do we want to convert? Of course, going
18 public creates more resources to accomplish our mission.
19 This is a highly capital-intensive business. We need
20 capital to maintain insurance reserves, to invest in new
21 technologies and products, and to serve more members.

22 As a nonprofit, our sources of capital are
23 effectively limited to our operating profits. Those
24 operating margins are slim, last year about 1 percent of
25 each premium dollar. We have explored other alternative

1 sources of capital, but have rejected them. For example,
2 another nonprofit Washington health plan explored merging
3 last year with a large plan in Chicago. That isn't an
4 option that is consistent with Premera's desire to remain
5 independent and headquartered right here in Washington.

6 I'd like to address some of those concerns I have
7 heard. As for the influence of Wall Street, any company
8 that focuses on shareholders first and its customers and
9 other stakeholders second is doomed to fail on both
10 fronts. Our mission and dedication to our members
11 remains the same, whether we are for-profit or operate as
12 a public company.

13 Second, going public will not increase premiums or
14 reduce fees for physicians and other providers. Today we
15 operate in a very competitive market, competing with
16 for-profit and nonprofits alike. We charge our customers
17 the market price. And we pay our physicians and
18 hospitals what the market demands. Clearly, these market
19 forces are independent of and unaffected by our capital
20 structure. In fact, Premera has increased our standard
21 rates for Eastern Washington physicians by more than
22 20 percent since January 2000.

23 Third, some conversions elsewhere have involved
24 large success bonuses for executives. There will be no
25 bonuses if Premera converts. In the future, stock

1 ownership plans may be offered to certain of our
2 employees, but our board has yet to address this issue.
3 And we will submit any such plan to State officials
4 before you make a decision on our conversion.

5 Fourth, with some conversions in other states, there
6 have been debates over the value of the companies. By
7 dedicating 100 percent of the initial stock outright, the
8 full worth of the company, including goodwill, is going
9 to support health initiatives. The stock market, which
10 is the most efficient and effective arbiter of value that
11 we know of, will determine the value of that stock.

12 Five, there are no plans to sell this company, and
13 we remain committed to rural areas. Premiera has an
14 independent board of respected community, medical, and
15 business leaders. Our board has repeatedly determined
16 that we remain independent and based in Washington,
17 because that is how we can serve our members best.

18 That's why our conversion plan incorporates all
19 antitakeover provisions available under Washington law.
20 Further, the State's Holding Company Act provides
21 additional protections. In the unlikely event that our
22 board determined to sell, the Insurance Commissioner
23 would be required to scrutinize any proposed sale with
24 the same due diligence as a conversion.

25 As for our commitment to rural areas, our record

1 speaks for itself. Premera's family of companies
2 currently serves every Washington county. We have
3 remained in many counties after other nonprofit and
4 for-profit insurers have pulled out. Where we have
5 stopped selling products in the past, it has been after
6 very careful consideration. For example, we stopped
7 selling Medicare Plus Choice. We did this because
8 federal funding was inadequate to cover all costs
9 including fees acceptable to physicians and hospitals.

10 We believe that strategically, a statewide network
11 of physicians and hospitals and a statewide presence,
12 including our rural areas, is a valuable competitive
13 advantage that we wish to maintain into the future.

14 In summary, I believe this conversion produces three
15 great wins. It's a win for our members through increased
16 capital to serve them better. It's a win for the State
17 through a growing company supporting local employment and
18 the tax base. And it's a win for the people of
19 Washington and Alaska through the creation of a
20 substantial pool of funds devoted to health initiatives.

21 Thank you very much. Yori Milo, one of our
22 executive officers, will add some detail about our
23 proposal.

24 COMMISSIONER KREIDLER: Mr. Milo?

25 MR. MILO: Thank you.

1 Mr. Barlow explained why Premera seeks to reorganize
2 as a stock company, that is, to access capital. I'm
3 going to be talking more specifically about what
4 Premera's proposed to do as contained in its Form A
5 filing that's on record with the Insurance Commissioner;
6 that is, how we propose to reorganize into a stock
7 company and, also, how we propose to establish the
8 charitable organizations to support the health
9 initiatives that Mr. Barlow described.

10 To do that, what I would like to do is look at the
11 Premera family of companies as it's organized today, and
12 then take a look at the Premera family of companies as it
13 would look after a conversion. So to start on the
14 screen -- and on the podium we've handed out hard
15 copies -- is the current family of companies in Premera.

16 The green companies represent nonprofit
17 organizations. The blue companies represent for-profit
18 organizations. So you can see that, today, Premera's a
19 mix of both for-profit and nonprofit companies. For
20 example, Premera Blue Cross is a health insurance company
21 that provides healthcare coverage in Alaska and
22 Washington. It is a nonprofit company; has been since
23 its inception.

24 By contrast LifeWise of Oregon, shown on the bottom
25 right of the screen, is a for-profit company also

1 providing health insurance coverage; has been a
2 for-profit since its inception. Similarly, States West
3 Life Insurance, shown on the left side is also a
4 for-profit company; it sells life and disability insurance
5 in Washington, Alaska, and Oregon, and a number of other
6 states.

7 So that brings that question: What is the
8 difference between for-profit and nonprofit companies,
9 and what are some of the similarities between for-profits
10 and Premera today? Key difference, for profits have
11 shareholders. Stock owners obtain their shares by paying
12 money to the corporation. That money serves as the
13 capital for our operations and reserves. In Premera's
14 case as a nonprofit, as you can see, it has no
15 stockholders and, therefore, has no ability to sell stock
16 to generate capital.

17 While there are differences between for profits and
18 nonprofits, there are also similarities. In the case of
19 Premera, contrary to common misperception, Premera is not
20 a tax-exempt charitable organization. It pays taxes,
21 both federal and state. In 2001 it paid over \$37 million
22 to the State of Washington, the same amount it would have
23 paid had it been operating that year as a for-profit
24 company. Similarly in 2001, it paid federal taxes in
25 excess of \$10 million. And of course, with respect to

1 for-profit and nonprofit regulation, Premera as a
2 for-profit or nonprofit would be regulated in the
3 insurance business in the same way, under the insurance
4 code and subject to the jurisdiction of the Office of the
5 Insurance Commissioner.

6 Let's take a look at Premera as it would be
7 reorganized pursuant to the conversion as filed with the
8 Office of the Insurance Commissioner. As you can see,
9 the organizations shown in blue, the same family of
10 companies, but now operating in for-profit status
11 pursuant to a series of transactions, which are
12 contemplated and provided for in the Form A, and which
13 are subject to the approval of the Insurance Commissioner
14 and the Attorney General.

15 On the screen you also see some new organizations
16 shown in green. These are the charitable organizations
17 that are established to help create the charitable
18 endowment that Mr. Barlow described. The way this would
19 be done is 100 percent of New Premera stock would be
20 contributed, given, to a charitable foundation, the
21 foundation shareholder at the top of the screen. The
22 purposes of the foundation shareholder would be to hold
23 and sell the stock and to assure that the proceeds are
24 used to support Washington and Alaska health initiatives.

25 That would be done by giving the cash proceeds of

1 the sale of stock to two new charitable organizations,
2 one established for Washington, one established for
3 Alaska, as shown on the left of the chart at the top,
4 with the proceeds being distributed pursuant to an
5 allocation to be agreed to by the states of Alaska and
6 Washington as part of the conversion decision.

7 These two new charitable organizations which would
8 hold the proceeds of the stock, the cash generated from
9 the stock sale, would be completely independent of
10 Premera, the Premera management and board would have no
11 role on the board or management of the two new charitable
12 organizations, and there would be no contractual
13 relationship tying New Premera with these two new
14 charitable organizations.

15 As part of our Form A filing, we have proposed some
16 purposes for these charitable organizations; for example,
17 to address unmet healthcare needs of uninsured
18 populations in the states, the education of physicians
19 nurses and other caregivers to help serve underserved
20 areas, and generally to create a legacy endowment to
21 improve healthcare in local communities of these states.

22 Our Form A filing also recognizes that State
23 officials will have a role in deciding how these
24 charities are established, for what purposes they're
25 established. And in our Form A filing, we call on State

1 officials to seek community input on what the final
2 purposes of these organizations should be.

3 Now, I've talked about the charitable organizations,
4 and Mr. Barlow said at the outset, the purposes of the
5 reorganization, the conversion, is to enable Premera to
6 raise capital to fund its operations and reserves. And
7 that would be done by selling new shares into the public
8 markets, that is the stock market, for cash
9 consideration, which would fund Premera's cash needs.

10 With that, we'd like to thank the Office the
11 Insurance Commissioner and the Office of the Attorney
12 General for giving us this opportunity to present our
13 proposal. And that closes our presentation.

14 COMMISSIONER KREIDLER: Thank you, Mr. Milo,
15 and thank you, Mr. Barlow, for your presentation.

16 Now we have an opportunity to hear from the public,
17 and let me just outline a few of the rules for how we
18 need to conduct this portion of the meeting. First, I
19 would like to -- when I call your name, I would like to
20 have you to come up and take a seat here in front of me.

21 We have a five-minute time limit, and the purpose of
22 that will be to make sure that everybody has an
23 opportunity to speak. We have a timekeeper over here who
24 will notify you if you're getting close on your time.
25 Again the purpose is to ensure that everybody who wishes

1 to come is afforded that opportunity.

2 For the sake of having an accurate record of this
3 meeting, we are having it transcribed this evening, and
4 that transcription of this meeting will be posted on our
5 Web site. The meeting that was conducted a week ago
6 yesterday in Seattle, that transcript has already been
7 posted on our Insurance Commissioner's Web site so that
8 you could -- so that we can make that part of the
9 official record.

10 I would urge you to speak slowly since it is being
11 transcribed, to afford an opportunity to make sure that
12 we get everything accurate. Second, I would ask you to,
13 when you come up, to state your name and any organization
14 that you may represent. For your last name, if you would
15 be kind enough just to spell your last name, it helps a
16 great deal with the transcription.

17 If you are reading from a specific text, I would ask
18 that if it's going to be more than the allotted time,
19 that you perhaps summarize. And you can also present to
20 the timekeeper over here any document that you may want
21 to enter that is already prepared, written.

22 I would like to point out, too, that this is a round
23 of hearings that we're conducting. It's the third of
24 four hearings around the State of Washington, and they
25 are being done purposely early in the process to solicit

1 public comment on the proposal of the conversion by
2 Premiera Blue Cross.

3 I would anticipate that we will have another round
4 of hearings once we have the expert information that
5 Mr. Odiorne described to you, from the experts that have
6 been retained by our office, and these experts have
7 extensive experience in other states that have gone
8 through conversion processes. Once that information is
9 available, it will be posted, again, on our Web site, and
10 it will be -- we'll have before us another round of
11 public hearings.

12 Doing an early round of public hearings is somewhat
13 unique. In the other states, they have not done it this
14 early. I felt, because I've certainly seen that this has
15 not always been a harmonious discussion about a
16 conversion, to begin the process very early to solicit
17 public comments so the public has an opportunity to offer
18 their views. So we're actually moving ahead of what
19 other states have done, from the standpoint of having so
20 many public hearings and having them very early in the
21 process.

22 This evening, as I mentioned earlier, I will not be
23 prepared to answer questions, engage in rebuttals or
24 debate. I -- we have many questions of our own. Your
25 questions will be included in the record and will be

1 certainly considered as a part of the review process that
2 we're undertaking, before I have the decision to make as
3 to whether we go forward with and approve or not approve
4 the proposal that Premera has put before us.

5 At some point we will have a formal hearing that
6 will be for the record, where we will have the chance to
7 lead up to the formal decision as to what action we will
8 take in that regard and, again, it will be done at that
9 point in a very close collaborative working relationship
10 with the joint responsibility that we have through the
11 Office of the Insurance Commissioner and the Office of
12 the Attorney General.

13 I now would like to call on the first person who
14 signed up indicating -- and they have a question mark,
15 but I want to afford them an opportunity, if they want,
16 to come forward to testify. And the first person on here
17 is John Putz. Do you want to come up, John, or do you
18 want to wait?

19 MR. PUTZ: I'll wait.

20 COMMISSIONER KREIDLER: Wait a bit.

21 Let me call, then, on Lynn Hall. Again, if you
22 could spell your last name and then speak slowly for the
23 transcriptionist.

24 MR. HALL: My name is Lynn Hall, H-a-l-l, last
25 name. And I appreciate the opportunity to come here this

1 evening and say a few things.

2 I don't know a lot about this process other than
3 what I've read in the paper. I haven't received anything
4 in the mail concerning it or any other things. The thing
5 that angers me just a little bit and brings me here
6 tonight is because I just received in the mail an
7 increase in my premium for MSC Premera. And that
8 increase is a 55-percent increase over last year. And
9 over the last two years, it amounts to about an
10 81-percent increase, which is a tremendous increase.

11 Now, I can understand, as I listen here tonight,
12 that it says here the consumer's not harmed. I'm being
13 harmed. My wife and I own a small business, and we can't
14 afford these increases. It say there's a potential
15 effect on Premera's solvency. Darn right. They're
16 getting solvent because of these types of increases. I
17 can understand that insurance all over the United States
18 is going up, but I think that it's pretty hard to justify
19 an 81-percent increase over the last two years. So I'm
20 concerned about that.

21 An accurate evaluation of Premera's assets? If you
22 go up that much, it increases with everybody, all their
23 constituents, all of their people who belong to Premera
24 Blue Cross, certainly that's going to jack up their
25 valuation of their assets and make them look a lot more

1 healthier and more attractive out there in the public
2 marketplace.

3 If Mr. Barlow and Mr. Milo can verify that they will
4 benefit in no way materially from this going private,
5 then I would say maybe there's something to it. But I
6 don't think either one of them can say that they will not
7 benefit materially at all from this going private with
8 MSC Premera.

9 Other thing I'm a little bit angry about is because
10 of your predecessor, or the fact that the insurance in
11 this state is pretty darn hard to come by. We had to
12 work really hard to get insurance. We would like to keep
13 it. It blesses and benefits our family. We want to be
14 able to keep having health insurance, but if this keeps
15 up, we can't afford it. We're a small business, and we
16 want to stay in business. And we just can't afford it if
17 those kinds of increases keep going up.

18 So those are my concerns. I don't have any
19 questions per se other than just to state my concerns.
20 Thank you, sir.

21 COMMISSIONER KREIDLER: Thank you very much,
22 Mr. Hall.

23 I would like to call on Harvey Geher. Excuse me.
24 Harry Geher.

25 MR. GEHER: Yes, that's right.

1 COMMISSIONER KREIDLER: I'll put my glasses on
2 next time.

3 MR. GEHER: I'll put my Twins cap on.

4 Yes. Thank you very much for this opportunity,
5 meeting in Richland, and giving me the opportunity to say
6 a few words. My name is Harry Geher. I'm the
7 administrator at Othello Community Hospital at Othello,
8 Washington.

9 First, at our hospital we generate on a
10 gross-revenue basis per year of approximately \$2 million
11 in billing to Premera Blue Cross. And we have a
12 35-percent discount on our inpatient charges, and we also
13 incur a 15-percent discount on our outpatient charges
14 from Premera. So on an annual basis, if we are grossing
15 approximately \$2 million in discounts, approximately
16 \$500,000 per year.

17 In the state of small rural hospitals such as ours,
18 we only have 49 beds in a community of 6,000. The
19 financial status of small rural hospitals in this state
20 is very precarious at this particular point in time.

21 Hospitals are -- as hospitals in this entire state,
22 compared to small hospitals in other states in this
23 country, we're severely unpaid through Medicare, Medicaid
24 programs, and we are just incurring a lot of stress and
25 challenges in just maintaining our own financial solvency

1 with continuing access and availability to people who
2 live in our communities.

3 Othello is particularly in need. It's a rather poor
4 community; 45 to 50 percent of our revenue base is
5 derived from Medicaid, another 20 percent is derived from
6 Medicare. Primary is our No. 1 nongovernmental payer, so
7 our first concern is related to what will happen in the
8 future if Premera converts from nonprofit to for-profit,
9 will the discounts for small rural hospitals increase?

10 Second concern, we too are an employer, and we
11 provide medical insurance coverage to our employees year
12 in and year out. We're only able to receive quotes from
13 two companies: One quote is from Premera; one is from
14 another competitor.

15 Also on a yearly basis, some years we too have
16 incurred price increases of 40, 50 percent in the
17 premiums that we pay to insure our people. But I think
18 from year in, year out, approximately 20 percent a year.

19 So second concern is if Premera converts from
20 nonprofit to for-profit and has a loyalty to provide
21 dividends to the shareholders year in and year out, what
22 will happen to the premium increases we will feel as an
23 employer?

24 Third consideration is probably a broader issue
25 related to the State's -- burgeoning State deficit.

1 We've received some materials that indicate the
2 conversion fees that Blue Cross has incurred converting
3 from nonprofit to for-profit, in either indirect or
4 direct fashion, has been utilized in the state of New
5 York and are certainly being considered by the governor
6 of Michigan to help fill their budget holes. So that's
7 an indirect -- that kind of consideration also concerns
8 us as to whether or not the conversion fees will be 100
9 percent reserved for preserving healthcare access and
10 availability to all Washingtonians.

11 Those are my comments this evening, and I thank you
12 once again for this opportunity.

13 COMMISSIONER KREIDLER: Thank you very much,
14 Mr. Geher.

15 Velma Jarrett? Velma Jarrett? If I've
16 mispronounced your name, I apologize.

17 MS. JARRETT: Thank you very much for allowing
18 me to come tonight. My name is Velma Jarrett,
19 J-a-r-r-e-t-t. And I am here tonight to represent
20 various individuals who have Premiera Blue Cross.

21 I have received numerous phone calls, as an
22 appointee to represent Premiera Blue Cross from various
23 policyholders, asking what effect this particular thing
24 has upon their policy premiums. They seem to be very
25 concerned that if Premiera Blue Cross becomes a for-profit

1 company, that it will impact their premiums considerably.
2 And they already have received various increases, that
3 they feel that it's very difficult for them to pay their
4 premiums.

5 So I primarily am here to learn more about it so
6 that I know how to answer their questions, because there
7 is a real concern among our seniors who are on fixed
8 incomes as to how they're going to be able to pay their
9 premiums.

10 Thank you very much.

11 COMMISSIONER KREIDLER: Thank you very much for
12 coming this evening.

13 I believe it's Brooke DuBois? DuBois?

14 MS. DuBOIS: I had a "no" there.

15 COMMISSIONER KREIDLER: Okay.

16 MS. DuBOIS: But since you called me, I'll
17 come.

18 COMMISSIONER KREIDLER: Oh, you did. I don't
19 know why --

20 MS. DuBOIS: Why did you call me up?

21 COMMISSIONER KREIDLER: Well, there was a
22 question mark there, that's why.

23 MS. DuBOIS: I'm Brooke DuBois, D-u-B-o-i-s,
24 and I am the director of the Ben Franklin Community
25 Health Alliance.

1 But I -- my question has to do with the creation of
2 the charitable trusts, and this is a self-serving
3 question. And I'm really sorry, but we are a nonprofit
4 too. We were trying to hit up MSC for money for a while;
5 we don't get any.

6 And I'm wondering once this charitable institution
7 is created, does that money then go to other nonprofits
8 who are working on healthcare issues in the communities,
9 or does it -- is it distributed as Kellogg and Johnson
10 foundations and so on would be, to initiatives that you
11 create?

12 And that's it. And I wouldn't have said that had
13 you not called me.

14 COMMISSIONER KREIDLER: There was a question
15 mark after "no." So, see, the door was left open.

16 MS. DuBOIS: I was leaving my options open.

17 COMMISSIONER KREIDLER: Okay. Like to call on
18 John Gollhofer?

19 DR. GOLLHOFER: Good evening. I'm John
20 Gollhofer, G-o-l-l-h-o-f-e-r. I'm a physician in
21 Spokane. I'm a Premera provider. My family and I are
22 Premera subscribers. I'm here tonight to speak in favor
23 of the Premera conversion. I've practiced medicine for
24 25 years, delivered thousands of babies. I'm a past
25 president of the Spokane County Medical Society and past

1 president of the Washington State Medical Association.

2 I've been an outspoken critic of insurance companies.

3 Recently I've been asked to share my expertise and
4 my criticism by being a member of the board of directors
5 of Premera. They've asked me to tell it like it is, and
6 they haven't been disappointed. Based on my experience,
7 I believe that I'm well-qualified, if not uniquely
8 qualified, to speak on the issues of healthcare delivery
9 in the State of Washington.

10 We have significant issues, issues of the uninsured,
11 the underinsured, the state and federal underfunding of
12 healthcare promises. We have physician practice
13 closures. We are unable to recruit physicians. We are
14 unable to retain the physicians that we have.

15 The private insurance companies are the only element
16 that is holding the healthcare financing system together.
17 Those of us who lived through the collapse of the Unified
18 Physicians of Washington, the receivership of the Kitsap
19 Physician Service, and the bankruptcy of Spokane Health
20 Link understand how important it is to have financially
21 strong insurance companies.

22 I believe the for-profit conversion of Premera will
23 be good for the patients and the providers in the State
24 of Washington. Thanks.

25 COMMISSIONER KREIDLER: Thank you very much

1 Doctor.

2 John Vornbrock?

3 MR. VORNBROCK: It's a pleasure to be here,
4 Mr. Insurance Commissioner, gentlemen. Thank you for
5 holding this hearing.

6 My name is John Vornbrock, V-o-r-n-b-r-o-c-k. And
7 I'm chief operating financial officer with Yakima Valley
8 Memorial Hospital. I'm here tonight not to speak either
9 for or against the conversion, but merely to raise some
10 concerns. Our hospital board has not taken a formal
11 position, that's why I'm not going to offer a formal
12 position for our hospital.

13 I know there's a number of issues dealing with the
14 conversion. I would like to speak to one of those issues
15 this evening. This relates to our experience that our
16 facilities had with Premera Blue Cross. During the last
17 five years, we have had difficulty getting payment
18 increases on a timely basis through Premera Blue Cross.
19 This has taken months in the last two situations.

20 This is in contrast to our payers that we deal with.
21 There are only a few major payers in the Yakima area.
22 Those payers are very critical to us because of the large
23 amount of Medicare and Medicaid that we have in Yakima.
24 So that has been a concern.

25 I might mention that we have eventually gotten

1 increases, and they have been adequate. But it has taken
2 a period of time. We are concerned on how Premera will
3 be able to compete in the consumer marketplace, provide a
4 return for its shareholders, and also compensate
5 providers in a fair and appropriate way in the future
6 after the conversion.

7 The one comment regarding -- regarding Premera's
8 impact in our marketplace, since Premera is our largest
9 payer, it really -- Mr. Barlow indicated that Premera
10 will pay what the market demands, but I think Premera
11 really is in a position to shape that market due to its
12 very size. So I think that does need to be taken into
13 consideration.

14 Thank you very much for the opportunity to speak
15 tonight.

16 COMMISSIONER KREIDLER: Thank you very much.

17 John Staeheli?

18 MR. STAEHELI: My name's John Staeheli,
19 S-t-a-e-h-e-l-i. I'm a physician. I'm also a Premera
20 provider and subscriber. I didn't come tonight with any
21 prepared statement. I am not pro or con. I came more
22 for education and to make sure that some of the concerns
23 that have been already raised tonight are being raised,
24 but maybe some other ones.

25 I think the State needs to be careful. They're

1 being offered a bribe, perhaps, for a conversion. A lot
2 of money out there. And you got to do the right thing
3 with it if you choose to accept it.

4 What's the purpose of insurance? Insurance, as I
5 understand it, is a collective to help insure, take care
6 of us in times of need. It's nice to have companies that
7 are profitable. But what's that profit then for? I
8 think it's to go back into the system for what it's
9 designed to do, not to go into other lines of business.
10 And I think that we need to be cognizant of that with
11 healthcare.

12 The premiums that we pay each month are designed to
13 go into our healthcare system to keep it afloat, to allow
14 hospitals to reinvest in new technology, not for
15 insurance companies to take the profit and go elsewhere.
16 So I think we have to keep that in mind.

17 If we look at what was published in the paper today
18 about where the premium dollar goes and where it's spent
19 on medical care, in '97, MSC's premium, 88 percent went
20 to medical care. This last year, 84 percent; their
21 profit went up, but they're spending less of their
22 premium dollars on medical care. If we look at
23 for-profit companies, the percentage that they spend of
24 their premium dollar that goes back into healthcare
25 services is down in the 70s. Where is that? That's a

1 loss to the system, ultimately. I think we have to be
2 careful of that.

3 That's all. Thank you.

4 COMMISSIONER KREIDLER: Thank you very much,
5 Doctor.

6 Ken Isaacs?

7 MR. ISAACS: Good evening, Commissioner
8 Kreidler and Rusty Fallis from the Attorney General's
9 Office, there, and staff.

10 My name is Dr. Kenneth Isaacs. I'm the first
11 vice-president of the Washington State Medical
12 Association. That is I-s-a-a-c-s.

13 The WSMA represents over 8,800 physicians and
14 surgeons in our state. I am a neurologist myself, having
15 been in practice in Walla Walla for 21 years.

16 Commissioner Kreidler, we at the WSMA have appreciated
17 the recent opportunities to work with you seeking
18 solutions to benefit the people of Washington regarding
19 the challenging and complex issues of health insurance.

20 Similarly, from the Attorney General's Office, I
21 would certainly like to personally acknowledge and thank
22 the work that has been done and the extraordinary and
23 historic work and contributions to benefit the health of
24 residents of this state and the nation, for example, the
25 tobacco settlement.

1 On behalf of the membership of the WSMA, I'm here
2 this evening to offer brief testimony in the opposition
3 to the conversion of Premera from a not-for-profit to a
4 for-profit insurance company, and to ask you, as
5 regulators, to substantially slow the process of
6 investigation so that organizations such as ours can have
7 the opportunity to more carefully review the proposed
8 conversion.

9 At our recent annual meeting in Tacoma, the
10 association's house of delegates unanimously adopted a
11 resolution to oppose the Premera conversion. Our house
12 of delegates is composed of physicians from every county
13 and virtually every medical specialty society. Its
14 members practice in every type of practice from academia
15 to large group practices to small group practices.

16 I offer this because it is significant that a
17 resolution of such importance as this should pass without
18 a single dissenting vote. I and other physician leaders
19 of the WSMA have been told in no uncertain terms that the
20 proposed conversion is a serious concern to our members.
21 If Premera converts to an investor-owned for-profit
22 status, physicians across the state fear that the
23 company's attentions will turn from concern for its
24 subscribers and network of physicians and hospitals to
25 increasing the financial returns of the company's

1 shareholders.

2 Management asserts that the best way to do so is to
3 do this, is through an offering of a price-competitive
4 product that meets consumer needs, in which a satisfied
5 viable network of suppliers such as physicians and
6 hospitals work. However, as management's interests turn
7 to increasing profit, our members are certain that it
8 will come at the expense of Premera's participating
9 physicians and hospitals, which are all struggling at
10 this time.

11 The physician community needs answers to many
12 questions which cannot be addressed in a hurried fashion.
13 Here are some of our concerns. In areas of Washington
14 State where Premera is functionally a single payer, such
15 as in areas of Eastern Washington, what impact will this
16 conversion have on the market and the physician and
17 hospital network?

18 Our members feel it will be negative, and that they
19 can expect reduced fees for their services, or worse yet,
20 that the company, and again, in need to satisfy its new
21 stockholders, will leave the market where it cannot
22 realize a sufficient return on investment.

23 What is exactly the thinking of management on why it
24 needs to convert to a for-profit status? Exactly how
25 threatened is the plan? To what use will the newfound

1 capital be put? Is Premera positioning itself to be an
2 acquisition target by such large multistate insurers as
3 Well Point or Anthem? If shareholder value would be
4 increased through such a sale, how could Premera not
5 sell, despite what corporate leaders may say at this
6 time? Will more attention be paid by management to
7 growing the company to make it more attractive for
8 acquisition than to attending to the needs of subscribers
9 and the network in our state? As for -- as a for-profit
10 company, will subsequent stock offerings be used to
11 enrich senior management?

12 Finally, we ask both the Commissioner's and Attorney
13 General's Office to ensure, should you be inclined to
14 grant this conversion request, that the assets of Premera
15 be preserved in a similar not-for-profit organization or
16 foundation supporting the health of the community.

17 Thank you for this opportunity to testify this
18 evening.

19 COMMISSIONER KREIDLER: Thank you, Doctor.

20 Since you touched on it, and Mr. Odiorne also did,
21 let me just reiterate that no decision will be made until
22 we have all of the information that we need in order to
23 make that decision. We initially outlined a fairly
24 aggressive time schedule as to the process that we would
25 go through.

1 That was before Premiera waived the 60-day
2 requirement that we were operating under, which was the
3 case where, once filing was completed with our offices,
4 we had 60 days; so we outlined a schedule to fill that.
5 They have waived it. In no small part, it would have
6 been difficult to have collected sufficient information.
7 Without sufficient information, it would have been
8 difficult to approve any filing without all of the
9 information we needed to make that decision.

10 So there is ample time, and this is a process that
11 will not be rushed unduly, and only that we have the
12 sufficient information available to us so that, at the
13 time that a decision is made, to make a decision. I just
14 reassure you that it will not be rushed. You will have
15 plenty of time to offer considerably more comment as to
16 the process that we're involved in.

17 MR. ISAACS: Thank you for those assurances.

18 COMMISSIONER KREIDLER: Thank you.

19 Betty Horton?

20 MS. HORTON: Actually most of the information
21 that I was going to present (inaudible).

22 COMMISSIONER KREIDLER: Thank you very much.
23 Betty Horton has indicated that the comments that she was
24 going to offer have already been presented and passes on
25 the opportunity to speak tonight.

1 I'm not positive here. Is it S. Merkley?

2 DR. MERKLEY: Thank you for the opportunity to
3 speak. My name is David Merkley, M-e-r-k-l-e-y. I am a
4 physician practicing here in Richland, and I do not have
5 a prepared statement, but I do have some concerns.

6 The ingredients for the healthcare pie are provided
7 by employers and individuals who pay into an insurance
8 pool. The insurance company then divides that pie
9 between the administrative costs and the medical costs
10 provided to those who are insured. I find it difficult
11 to see how you can include payment to a for-profit
12 investor without making the slice of the pie going to
13 medical care smaller.

14 I also think that I have not seen the 20-percent
15 increase in the payments that I have received from
16 Premiera over the last several years, let alone the last
17 year. I think that this is an organization that is large
18 enough and will have a large enough effect on the state
19 of healthcare in our community and in the state that most
20 careful consideration needs to be given to this.

21 Thank you.

22 COMMISSIONER KREIDLER: Thank you very much,
23 Doctor.

24 Let's see. Michael Cafferky? Hopefully I'm close
25 on that.

1 MR. CAFFERKY: You got it exactly right, one of
2 the few people. Thank you.

3 My name is Michael Cafferky. It's spelled
4 C-a-f-f-e-r-k-y. I don't have a prewritten statement.
5 Just a few thoughts, however. I'm the interim
6 administrator at Quincy Valley Medical Center in Central
7 Washington, and so my thoughts have to do with the
8 employees that I deal with there and the patients in our
9 small community.

10 I hope you'll forgive me for citing a recent
11 insurance event that occurred in our organization's life,
12 which you may have heard about, where our professional
13 liability insurance carrier came to us two weeks before
14 the end of the premium year and announced to us that they
15 would be raising our rates 385 percent. That would make
16 our annual costs go from \$139,000 up to \$660,000. With
17 that kind of a cost increase, we would have to go out of
18 business, basically.

19 Now, we pay quite a bit more for health insurance
20 for our employees, and I'm sure that the individuals who
21 are representing the interest's change from nonprofit to
22 profit aren't envisioning those kinds of triple-digit
23 increases for annual premiums. I hope they're not. I'm
24 sure they're not.

25 I do respect the kind of juggling act that the

1 health insurance companies have before them to try to
2 create a benefit plan that adds value to the customer,
3 provides a certain level of coverage. It doesn't cover
4 everything that is demanded by customers, so there is a
5 real challenge there.

6 So my concerns have to do with the potential
7 inherent conflict between the profit and the care. And I
8 do have concerns about the for-profit status of an
9 organization, and the drives to creating investor
10 dividends, and the care of the individuals at the other
11 end of the equation.

12 I also hope that the executives of the organization
13 will not have personal benefits as a result of this. I
14 don't know all the details on that, but I hope that
15 receives very close scrutiny.

16 We do live in a society with fixed financial
17 resources for healthcare, and yet greater and greater
18 demands for care on the system. And I realize that this
19 one insurance company can't solve the social ills that we
20 all experience, but I just urge the commission and those
21 involved, all the stakeholders, and those reviewing this
22 situation, to proceed very cautiously.

23 Thank you.

24 COMMISSIONER KREIDLER: Thank you very much,
25 Mr. Cafferky.

1 John Putz, wish to testify now or...?

2 MR. PUTZ: Sure.

3 My name is John Putz, P-u-t-z, and I'm very nervous
4 because I was not prepared to do this. But in sitting
5 back and listening to the comments, there are some
6 observations that I guess I would like to just express
7 from a personal provider of services to small employers
8 in Eastern Washington.

9 It's been my observation since the healthcare
10 crisis, as I define it, began -- started back in House
11 Bill 1046, which basically determined and changed the way
12 in which medical care premiums were delivered to the
13 employees in this state. And it changed it from being a
14 community-rated pool to being an age-rated pool.

15 And my concern resides with the -- what's happening
16 in Eastern Washington and what happens is its going from
17 a nonprofit to a for-profit. You look at profitable
18 markets, and being in Eastern Washington, we are an
19 older, smaller population part of the state. The
20 Cascades do divide us into two different entities.

21 Many of my clients reside in the -- own small
22 businesses, and it is not uncommon to see a business of
23 five or six or ten employees with an average age of 50 or
24 plus. With this age-rated basis, it does created an
25 extremely high burden on these people.

1 And just reflecting on the same comments of 50- to
2 60-percent increases, I'm not sure if they're talking
3 about company increases or individual increases. It
4 doesn't really matter. But I have seen double digit
5 increases in the last three or four years, and I see no
6 relief for that in sight.

7 Now, whether that has made Eastern Washington more
8 profitable or not, I don't know. But being an ex-banker,
9 when you're operating in a nonprofitable market, you
10 sometimes tend to not want to continue to operate in that
11 market.

12 And I would just hope that through this whole review
13 process -- I'm not saying that privatization or
14 for-profit is a bad thing or whether it's a good thing.
15 I just would like to emphasize that I think the whole
16 system needs to be looked at, not just were whether
17 Premiera Blue Cross becomes a for-profit.

18 But I think we have some inherent problems in the
19 state in the delivery of healthcare and how we price that
20 product. So all I guess I would emphasize is that your
21 review be cautious and be responsible to those who you
22 serve.

23 That's it. Thank you.

24 COMMISSIONER KREIDLER: Thank you very much,
25 Mr. Putz.

1 Let me reassure you and others that the principal
2 reason that we are out here hearing from consumers early
3 in the process is because we want to make absolutely
4 certain as we go through this process that we've heard
5 from individuals. And the most significant barrier or
6 challenge that we face as the part of the decision-making
7 process is that consumers are not harmed in this process.
8 So that will be a major part of what we're considering.

9 You also touched, Mr. Putz, on a another issue which
10 is of significant importance to Eastern Washington, which
11 is why we are fully holding half of our hearings in
12 Eastern Washington as opposed to Western Washington.
13 Eastern Washington has a significantly higher stake in
14 this conversion as opposed to Western Washington because
15 of the very significant presence of Premiera Blue Cross in
16 Eastern Washington.

17 My colleague in Alaska, who is the insurance
18 commissioner, Bob Lohr, reminds me constantly about the
19 situation that Alaska's in, which is a high dependence on
20 Premiera. And I point out to him, well, in Western
21 Washington, you're right; it's different down here in
22 Washington. But in Eastern Washington, it's much like
23 Alaska.

24 So there is a significant issue involved here which
25 is why we're out here wanting to hear from individuals.

1 As I mentioned earlier, this is the third of four forums
2 that we are hosting around the state. And the transcript
3 will be posted on our Web site as soon as it is possible
4 to do that. And I would anticipate in a week's time that
5 it's likely we will have it posted on our Web site.

6 As we gather more information, there will be
7 additional opportunities, as I pointed out, for comment.
8 We anticipate another round of public hearings when
9 additional information is available. Go to our Web site,
10 which is www.insurance.wa.gov, and you'll have an
11 opportunity to view these documents and developments as
12 they take place. And you also have an opportunity, if
13 you would like to, to comment electronically by sending
14 an email with your comments. It will become a part of
15 the official record.

16 Again thank you so much for coming out tonight
17 and -- how did I miss -- I offer my apologies for
18 somebody who traveled from the west side. And, you know,
19 what happened is I marked your name and jumped
20 immediately to the next one.

21 Let me ask the executive director of the Washington
22 State Hospital Association, Mr. Leo Greenawalt, to come
23 forward to offer his comments.

24 DR. GREENAWALT: First, my name is Leo
25 Greenawalt, G-r-e-e-n-a-w-a-l-t.

1 First, let me tell you how encouraged we were to
2 hear of the time frame change. We understood that it was
3 a 60-day period with 30 days added on. And to hear that
4 you're going to go through slowly and look at this issue
5 is really encouraging to us.

6 The hospitals have been able to react to this only
7 from a fear perspective because we don't have a lot of
8 information, and we have been very much anticipating the
9 studies that are done and the time to look at it and make
10 sure we understand it.

11 I want it talk a little bit about the history of
12 Blue Cross. It was formed in the State of Washington
13 coming out of the Depression. There were a number of
14 for-profit hospitals in the state and a number of
15 not-for-profit hospitals, and almost everyone coming into
16 the middle of the Depression were close to bankruptcy.

17 The hospitals then formed this company, Blue Cross,
18 as a way of keeping healthcare available across, well,
19 mostly in the western side originally, but similar things
20 in the middle part. Interestingly, every for-profit
21 hospital went bankrupt and out of business during that
22 period of time, and a few community hospitals remained.
23 And the purpose of Blue Cross in this state, as well as
24 in other states across the country, was to preserve some
25 kind of access to care because people couldn't pay for

1 it. There was no system put in place.

2 This was pretty much preserved in the 1970s in our
3 state when the State passed a rate-setting commission
4 bill. And the purpose of that was, for the rural areas
5 mostly, was to make sure that when Medicare and Medicaid
6 didn't pay their share of the hospital bill, that the
7 private market would pick up the cost shift. And so our
8 state institutionalized.

9 It was, from a rural perspective, it was the most
10 protective thing that could have happened. We would have
11 lost most of our hospitals during that period, but the
12 not-for-profit institutions out there paid more than
13 their share of the costs and kept them alive. It was an
14 understood and committed-to process.

15 We decided in the late '80s that competition was the
16 way to go. It was mostly an urban phenomenon that did
17 something about. And we found the rural hospitals
18 deteriorating during that time. In fact, just this last
19 year, of about 45 rural hospitals in the state, 22 have
20 been designated as critical-access hospitals. What that
21 means is that the federal government -- and we have a
22 similar law in the state -- has looked at these hospitals
23 and said, "You're the only thing available out there, and
24 if you go out of business there won't be anything for the
25 public." And also found that they were hurting so bad

1 financially that, if they didn't put some more money in,
2 both on the federal Medicare level and the state level,
3 they were going to go under.

4 The most worrisome part of all of this hearing and
5 discussion is the word "market" when we talk about
6 healthcare insurance. There may well be a market in the
7 cities. There is no market in rural America. Nobody
8 wants to go in. There's not even a market for hospital
9 care. It's either there or they're not.

10 There may be ways of answering this. If there was
11 built-in subsidies in the '70s that covered rural health
12 care, maybe there are ways for the Insurance Commissioner
13 and Attorney General to come up with ways to guarantee
14 that the insurance companies stay in the rural areas and
15 pay the costs to keep them going. So maybe there are
16 elements of our fears that can be allayed on that. But
17 it's a huge issue.

18 What I've gotten is more phone calls on this issue
19 than any I've had since I've been CEO of the Hospital
20 Association, and it is all in fear: What is going to
21 happen to us if they come out of the rural areas? They
22 know the state budget is in shambles, and it's going to
23 be that way for a couple years. They expect tremendous
24 cutbacks that way.

25 They're worried if Blue Cross Premiera starts acting

1 more like an investor-owned company and worries about
2 profit and doesn't worry about protecting the rural
3 access to what's out there, that they'll just go under
4 and there's nothing left afterward.

5 So we appreciate your taking time on this. We can't
6 wait to hear what kind of studies are done so we can look
7 at them as well, and we hope to participate in a rational
8 way, not just saying no to everything. But at this
9 moment, all we heard are bad stories from other states,
10 and it just builds up across our state.

11 Thank you.

12 COMMISSIONER KREIDLER: And thank you very
13 much, Leo. Again, my apologies. Taking too many notes,
14 not paying attention as I call people up.

15 Is there anybody else I may have overlooked? I
16 don't think so.

17 Again, on behalf of the Attorney General and myself
18 as the Insurance Commissioner of the State of Washington,
19 let me expression my appreciation for your coming out
20 tonight and participating in this process. It was most
21 helpful. We look forward to having an opportunity to
22 hear from you again. Thank you so much for coming.

23 (Proceedings concluded at 8:18 p.m.)
24
25

C E R T I F I C A T E

I, SUE E. GARCIA, a duly authorized Court Reporter and
Notary Public in and for the State of Washington, residing at
Tacoma, do hereby certify:

That the foregoing proceedings were taken before me on
the 8th of October, 2002, and thereafter transcribed by me by
means of computer-aided transcription, that the transcript is a
full, true, and complete transcript of said proceedings;

That I am not a relative, employee, attorney, or
counsel of any party to this action or relative or employee of
any such attorney or counsel, and I am not financially
interested in the said action or the outcome thereof;

IN WITNESS HEREOF, I have hereunto set my hand and
affixed my official seal this October 14, 2002.

SUE E. GARCIA, CCR, RPR
GA-RC-IS-E305QB